

Brexit result and MAPS update

24th June

The Brexit result

The UK have voted to leave the EU in a close vote, however it is not clear when the UK will officially notify the EU of its intention to leave under article 50 of the Lisbon Treaty. From that point, the UK has two years to negotiate new trade agreements.

A shock result but not a shock reaction

	UK Market	EU Market	US Market
ILIM forecast	-10%	-5/-10%	-3/4%
Actual impact	-2.5%	-6/-7%	-2.5%

Markets have reacted largely in line with expectations. The outcome was either 'in' or 'out' and in the event of 'out', markets opened up lower and broadly in line with where fundamentals would indicate they should be in the short term.

Currencies have also been impacted with Sterling falling significantly against the dollar (c.8%) and against the Euro (c.5%). In turn, the Euro has also fallen against the dollar (c.3%).

Bonds have rallied as a perceived safe haven asset with German 10yr bond yields hitting a new low this morning of -0.16%. That means investors are paying the German government to mind their money.

Economic Impact

The UK is likely to feel the impact of Brexit most but market ripples will impact globally:

UK

- Likely to see significant near term economic slow down
- Sterling to remain weak
- Interest rates may be cut
- Bank of England 'ready' to minimize impact

Ireland

- 15% of exports are to the UK
- C.-0.5%/1% impact on Irish growth
- May benefit from business leaving UK, redirecting growth opportunities to Ireland

Europe

- Growth likely to be impacted by c.-0.4%

Global

- Growth impact likely to be small and less than -0.2%

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MAPS is designed to deal with events like Brexit

- MAPS should outperform stock markets around Brexit due to the significant levels of diversification, as it did in Q1 2016. MAPS is diversified across asset classes, geographies, sectors, strategies, managers and currencies to reduce the impact of market events like Brexit. The most relevant are:
 - **Global investing:** MAPS UK exposure is mostly in equities. MAPS 4 has 60% in equities. (40% Global, 20% Low Volatility) and less than 10% of those are in the UK i.e. less than 6% exposure to the UK overall in MAPS 4.
 - **Currency Hedging:** 50% of currency exposure in MAPS is hedged i.e. of the 6% exposure to sterling based equities in MAPS 4, half of that is hedged in terms of any potential currency impact.
 - **Multi-Asset:** Equities are only one asset class in MAPS. We also invest in Bonds which make up 10.5% of MAPS 4 (42% of MAPS 2, 23.5% of MAPS 3) and are up this year. There is also a significant allocation to Property in MAPS which is performing strongly year to date.
 - **Managing Equity Risk:** within equities, we have low volatility equities which have significantly outperformed ordinary equities and expect them to continue to do so in the current volatile environment.
- **DSC** will not trigger on the outcome of the Brexit vote alone. DSC uses three factors to evaluate markets. The first is *Momentum* which will be impacted by the falls in markets. The other factors, *Valuation* and *Macro*, are unlikely to be impacted by Brexit in the short term. DSC is not designed to react to short term movements or one off events but will continue to monitor markets on a daily basis.
- **Range of Returns** has not been impacted. At no point since the launch of MAPS have the funds been outside of their expected performance range despite several periods of volatility around events in Greece, China or the January wobbles earlier this year. Brexit is no different and the long term performance of MAPS funds remains strong and on track.
- **Key Messages**
 - **There is no need to panic** – markets reflect investor sentiment which, at the moment, is surprise and uncertainty. As a result, short term market falls and higher volatility are normal.
 - **Time not timing.** Brexit is over and the stock market has reacted. Stock market up's and down's are part of the investment journey which MAPS can manage but are not a reason to stop investing. Staying invested leads to better outcomes over time.
 - **Extensive diversification** means you are not over exposed to either stock markets or the UK. MAPS manages volatility by investing in a wide variety of assets, geographies and currencies to ensure investors are not exposed to single events like Brexit.
 - **Range of Returns** remains on track to deliver performance in line with expectations

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NOTE:

Please note markets remain very volatile and we will keep you informed of events as they unfold.

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